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ABSTRACT

This paper provides a basic understanding of the Pell Grant program and summarizes the evidence regarding its effectiveness. The Basic Educational Opportunities Program, known as the Pell Grant program, began in 1973 as a means of providing disadvantaged students access to a postsecondary education. The Pell Grant program has tried to keep up with the rising cost of college, but the growth of the Pell Grant program in real dollars has sharply declined. By the 2000-2001 academic year, the Pell Grant maximum covered only 39% of the total cost at a four-year public institution. The amount of money a student can receive through the Pell Grant program is need-based, with his or her family's expected contribution subtracted from the Pell Grant maximum. Students who are eligible to receive the maximum may not do so if allocations are not sufficient. This may help explain why Pell Grant awards are disproportionately used at two-year colleges. A number of researchers have considered whether or not the Pell Grant has helped large numbers of disadvantaged students attend college, and some findings suggest that it is being used by youth who had planned on attending college in any case. There is no doubt that the program provides a smaller percentage of college costs. Some of the options for reallocating the money the Pell Grant program receives each year are discussed. It is imperative that policymakers consider new ideas to revamp the program to allow for greater access and greater choice. Increased appropriations are not likely, and narrowing eligibility does not achieve the goal of increasing participation. Program changes must be carefully considered if the Pell Grant program is to provide continued access and college choice. (SLD)

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By Vicente M. Lechuga

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Will the Pell Grant Program Have the Ability to Provide Access and Choice to Low-income Students in the future?

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As enrollments into postsecondary institutions continue to escalate throughout the country, there will be many students who will continue to rely on the financial aid system for assistance throughout their college careers. At a time when the cost of attending college is on the rise, policy-makers may be compelled to narrow eligibility requirements as a means of extending the limited financial resources set aside to aid those in need of financial assistance. Still, the goal of access should not be overlooked, and the needs of low-income students, who rely on financial aid as a means of gaining entry into the higher education system, should not be neglected. Moreover, the type of institution low-income students will be able to attend should not be restricted due to a lack of financial aid resources. Qualified applicants should have the opportunity to attend the institutions of their choice. A lack of financial resources should not be a barrier to a quality education. By eliminating choice, the higher education system could begin to segregate its participants based on socio-economic status.

Interestingly, despite society's dependence on federal financial aid, little is known about whether these aid programs actually increase access. Based on research provided by various economists, this paper will attempt to provide the reader with a basic understanding of one of these programs, the Pell Grant, and summarize the evidence regarding its effectiveness. With appropriations to the program remaining stagnate, and with a large influx of students expected within the next ten years, innovative changes to the Pell Grant program need to take place.

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The primary objective of our federal system of financial aid is to provide access to the higher education system for students who may be interested in pursuing a college education, regardless of their socio-economic background. Federal assistance programs are the largest source of student aid in the country, awarding more than $60 billion dollars in financial aid each year (U.S. Department of Education). However, at the present time the system is only able to provide low-income students with limited access into higher education and little choice as to the type of institution they can attend. Over the last few years, federal appropriations to the Pell Grant program have remained constant at $8.8 billion, annually while Pell Grants awarded to individuals continue to cover a shrinking percentage of the total cost of attendance.

Pell Grant Program

The Basic Educational Opportunities Grant program, now known as the Pell Grant program, began in 1973 as a means of providing disadvantaged students access to a postsecondary education. The cost of attending college has risen over the last two decades and it seems likely that this trend will continue. For example, in 1982 the average cost of tuition at a public four-year institution was about $800, while the average cost of tuition at a four-year private institution for the same year was $4, 639 (NCES, 1997). For the 1997-98 academic year, annual tuition costs for four-year, private institutions increased to $13,785 and to $3,111 for students enrolled in public, four-year institutions (Ehrenberg, 2000). Average annual tuition increases at public and private four-year institutions were more than double the average increase in consumer prices for the 15-year period between 1980-95 (NCES, 1997).

The Pell Grant program has tried to keep up with the rising price of college, but since about 1980, the growth of the Pell Grant program in real dollars has sharply declined (McPherson & Schapiro, 1991). According to the U.S. Department of Education, maximum grant awards covered 84% of the total cost of attendance at a four-year public institution for the 1975-76 academic year. By the 2000-01 academic year, the Pell Grant maximum covered only 39% of total costs at the same type of institution. Moreover, Congress seems to have limited appropriations to the Pell Grant program at roughly $8.8 billion a year, and signs of change are not likely to occur, especially considering the current economic climate.

The amount of money a student can receive through the grant program is calculated using a need-based formula, which subtracts a family's expected contribution from the Pell Grant maximum. The grant maximum for the academic year 2000-01 was $3,750 with the minimum being $200 (U.S. Department of Education). But students who are eligible to receive the maximum amount are not necessarily going to be awarded with this amount. Because the Pell Grant program relies on federal appropriations, award amounts generated through the formula can be proportionally reduced if allocations are not sufficient enough to assist the number who have qualified. Even so, the maximum Pell Grant award would hardly cover tuition at most private institutions, not to mention the public research universities. This may help explain why Pell Grant awards are disproportionately used at two-year public colleges, where tuition is relatively low. Access to the higher education system has been limited and choice has almost been eliminated due to the financial limitations inherent within the current system.

Perspectives

Economist Ronald Ehrenberg (2000) believes one of the reasons the Pell Grant program has been unable to keep up with the rising cost of tuition is because of its expansion to include for-profit, and non-degree granting proprietary institutions. After this expansion, funds allocated to students decreased in size due to the increase in the total number of students eligible to receive funds. Ehrenberg's calculations show that actual maximum grant levels reached a high of $4,000 in 1975 (in constant 1997-98 dollars) and have declined considerably since then. In order for the federal government to keep its commitment to guaranteed access to low-income students, the government will need to at least keep actual maximum grant levels constant, in real dollars, since it is impractical to expect grant levels to keep constant with tuition increases.

Breneman and Galloway (1996) have expressed a different point of view. As the federal budget climate has stabilized appropriations to the Pell Grant program at about $8 billion per year, it is impractical to advocate for full funding of the Pell Grant program. In their estimation, it would take at least an additional $6 billion each year to fully fund maximum grant amounts. The reality is that this kind of allocation is unlikely to occur. Rather, it is more reasonable to examine different methods to better utilize current allocations to the program as a means of maintaining as much access as possible. In their study, the authors propose seven alternate formulas for allocating Pell Grants. Results from the study show that if proprietary school students are excluded from receiving funds through the Pell Grant program, maximum grant awards would substantially increase, with the largest percentage of grant dollars going to the public institutions. Breneman's rationale behind excluding Pell Grants to students at proprietary institutions is that many

of the short-term, vocational programs would be better supported by direct contracts through the U.S. Labor Department and would thus allow more money to be put back into the Pell Grant program.

Thomas Kane (1995) argues that Pell Grants have not been well targeted and have been unable to bring about major changes in the enrollment patterns of low-income students. Since the program's inception in 1973, one would have expected to see a disproportionate rise in enrollments for low-income students. In fact, scholarly research does not show this to be true. In a 1983 article by W. Lee Hansen, the author found that there was very little growth in enrollments for low-income students, ten years after the inception of the Pell program. Kane's (1999) later analysis of Hansen's research compared data from two years prior to the program's inception with data for the five years proceeding the program's establishment. He found that between 1973-77, after the BEOG had been established, college enrollment for low-income students grew 2.6% slower than total college enrollment for all students during that period. Such evidence may suggest that the Pell Grant program has not been effective in opening the doors of higher education to low-income students unsure of attending. Rather it is being used by youths that had already planned on attending college in the first place, regardless of the grant award.

Cameron and Heckman (1999) have shown that only a small number of students are prevented from attending college due to short-term financial constraints. In their opinion, this evidence suggests that the Pell Grant program has helped to make it easier for low-income students to attend college. Yet the authors agree with Kane's assertion that programs targeted at low-income students are underutilized by the target group. This

may be attributed to the fact that many students who are eligible to receive these resources perceive that the returns to a college education are not substantial enough to cover the cost of forgone earnings, even with a tuition subsidy such as the Pell Grant.

Potential Solutions:

We have discussed the possibility of excluding proprietary institutions from receiving Pell Grant funds. Yet there are other options for reallocating the $8.8 billion that the Pell Grant program currently receives each year. Front-loading Pell Grants is another method that can be used to better utilize current allocations to the program. Front-loading refers to the reallocation of grant dollars to first and second year students only, thus providing low-income students with a type of incentive to enter the higher education system. Thomas Kane (1999) makes a strong case for the front-loading of Pell grant awards. Since the value of the Pell Grant has decreased in real dollars over the past two decades, this method of distribution would make Pell Grants available to the most price sensitive students during the first two years of college. The net affect of front-loading would be that those students who are undecided about enrolling in college would more likely be persuaded to enroll because of the additional funds made available to them. Kane's calculations show that front-loading the grant awards would increase the maximum award amount by about $1,000 without any additional funds being spent on the program. As research has shown that students are more likely to persist after they have completed their first year of college, front-loading seems like a logical alternative.

Yet, research by Breneman and Galloway (1996) asserts that front-loading the Pell Grants will only reallocate funds away from the public and private colleges with

proprietary schools receiving most of the reallocated grant dollars. Under this scenario, during the 1995-96 academic year, Pell Grant awards to public college and universities would have declined from 67% to 65% and private institutions would have seen a decrease in Pell awards from 17% to 14%. Their research also shows that by combining the front-loading of Pell Grant awards with the exclusion of Pell Grants to proprietary institutions, the combination would provide the largest increase in the maximum grant awards for students. Public and private degree-granting institutions would be better served by combining both methods of reallocation, but excluding grant dollars from proprietary institutions could adversely affect low-income student enrollments. As well, these cost implications must be viewed in an objective arena, as the authors do not hesitate to point out the one flaw inherent in their projected cost savings. In their analysis, Breneman and Galloway (1996) did not allow for the possibility that many of the students excluded from receiving Pell Grants might re-enroll at other institutions where they would remain eligible for the awards. Taking this into account could reduce the authors projected award maximums by about 50%. Also, the politics involved with this type of undertaking would likely stifle any plans to exclude proprietary institutions from receiving Pell Grant funds.

Final thoughts

This paper aimed to present a number of different viewpoints and possible solutions to the current issues surrounding the Pell Grant program. With college tuition rates on the rise, it is imperative for policy makers to consider new ideas for re-vamping the current Pell Grant program to allow for better access and greater choice. The Pell

Grant program has been unable to keep pace with both the rise of inflation and the rise in the rates of tuition and has thus diminished its ability to provide access to low-income students. It seems as if this trend is likely to continue unless solutions are found. One answer would be to simply raise appropriations to the Pell Grant program. As this seems highly unlikely, we must turn to economists for ideas on how to better utilize the amount of money that is likely to be allocated to the program in the future. If appropriations to the Pell Grant program are not being utilized efficiently, then one cannot expect the program, in its current state, to be able to allow for greater levels of choice and access to the higher education system for low-income students. Narrowing eligibility requirements does provide for larger grant awards, yet it excludes students from participating in the system. If access to higher education remains a goal of the program, this may not be a viable solution.

On a final note, academically qualified applicants should have the opportunity to attend institutions of their choice. A lack of financial resources should not create a barrier to a quality education, and choice should not become a component reserved for socio-economically-advantaged families. In order for the Pell Grant program to provide continued access and a component of choice in the future, programmatic changes to the current program will need to take place.

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